



**CHILTERN DISTRICT COUNCIL**

## **Audit Committee**

**Thursday, 23rd September, 2010  
At  
6.30 pm**

**Large & Small Committee Room, King George V House, King George  
V Road, Amersham**

**Appendix 6:  
External Auditors Annual Governance Report 2009/10**



# Annual

# Governance

# Report

Chiltern District Council

Audit 2009/10

Date **September**



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
-

Ladies and Gentlemen

**2009/10 Annual Governance Report**

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Head of Financial Services on 23 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustment to the financial statements set out in this report;
- agree to adjust the error in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the error;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Mick West

District Auditor

23 September 2010

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# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

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<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	6
Adequate internal control environment	Yes	6
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	8

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## Audit opinion

- 1 My work on your financial statements is nearing completion and I anticipate giving an unqualified opinion by the due date of 30 September 2010.
- 

## Financial statements

- 2 The accounts adopted by the Audit Committee on 23 June 2010 were made available for audit supported by detailed working papers (although a bit later than planned).
  - 3 There were no material errors in the financial statements approved by the Audit Committee.
- 

## Value for money

- 4 I have completed my assessment of your arrangements to put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in the use of resources. I anticipate giving an unqualified value for money conclusion by 30 September 2010.
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## Independence

- 5 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.
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## Next steps

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## Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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6 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustment to the financial statements which is set out in this report;
- agree to adjust the error in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the error;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 4).

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# Financial statements

**The financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 7 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft auditor's report.

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## Errors in the financial statements

- 8 The accounts adopted by the Council on 23 June 2010 contained no material errors.
- 9 You have amended the account for one error identified. There was a change of accounting practice in 2009/10 for council tax and business rate transactions. The prior period adjustments for this change, in the 2008/09 comparatives, were incorrect.
- 10 There is one error that you have not corrected. You have overstated your share of the long term liability and your pension reserve by £68,000. You made an error in calculating the apportionment between the Council and the Joint Committee.
- 11 There is a balancing entry (£116,000) in the statement of recognised gains and losses which you cannot explain. This may indicate there are errors in other parts of your financial statements.

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## Important weaknesses in internal control

- 12 I identified no material weaknesses in internal control. I draw to your attention the following significant weaknesses:
- you are not reviewing the payroll exception reports provided by your payroll provider and there appears to be no review of individual deductions;
  - you are not evidencing as prepared or reviewed your reconciliations of the daily summary of collections and bankings plus the Head of Finance is not always signing off the monthly bank reconciliations;
  - although you have improved procedures for material year end journals there are still a few that either are not properly authorised or do not have appropriate supporting documentation;
  - you are entering council tax and housing benefit parameters on to the financial systems without providing evidence that they have been reviewed and checked;



**Financial statements**

- you are not signing the reconciliations prepared by the finance team between housing benefit payments and the financial system;
- similarly for the council tax and business rates systems there are various reconciliations that you are not signing as prepared/reviewed; and
- you are not clearing un-presented cheques promptly (as at 30 June 2010 there were 91 cheques older than 6 months).

**Recommendation**

R1 Address the improvements to internal controls identified.

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**Accounting practice and financial reporting**

- 13 I consider the non-numeric content of your financial reporting. I have no issues to report. Your financial statements were well presented, other than some minor errors that have been corrected.
- 14 HM Treasury has confirmed that from April 2011 increases in public sector pensions will be linked to the Consumer Prices Index ('CPI') rather than the Retail Prices Index. You have included an additional disclosure in the accounts to report the general impact of the government's announcement.

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**Letter of representation**

- 15 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

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# Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

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## Value for money conclusion

- 16 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 3.
- 17 I intend to issue an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft auditor's report.

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# Glossary

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## Annual governance statement

- 18 Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 19 It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 20 The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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## Audit closure certificate

- 21 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

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## Audit opinion

- 22 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
  - whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
  - whether they have been prepared properly, following the relevant accounting rules.

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## Qualified

- 23 The auditor has some reservations or concerns.

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## Unqualified

- 24 The auditor does not have any reservations.

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## Value for money conclusion

- 1 The auditor's conclusion on whether the council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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# Appendix 1 – Independent auditor's report to Members of Chiltern District Council

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## Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Chiltern District Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Chiltern District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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## Respective responsibilities of the Head of Financial Services and Auditor

The Head of Financial Services' responsibilities are for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information.

## Appendix 1 – Independent auditor's report to Members of Chiltern District Council

I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

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### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

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### Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

**Appendix 1 – Independent auditor’s report to Members of Chiltern District Council**

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**Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources****Authority’s Responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

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**Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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**Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects Chiltern District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Appendix 1 – Independent auditor's report to Members of Chiltern District Council

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**Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mick West  
District Auditor  
Officer of the Audit Commission  
Unit 5, Isis Business Centre,  
Horspath Road,  
Cowley,  
Oxford OX4 2RD.

September 2010

DRAFT

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# Appendix 2 – draft letter of representation

To: Mick West

District Auditor

Unit 5  
Isis Business Centre,  
Horspath Road,  
Cowley  
Oxford  
OX4 2RD

## Chiltern District Council- Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and Members of Chiltern District Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

### Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

### Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

- reason 1 etc;
- reason 2

### Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related



**Appendix 2 – draft letter of representation**

information, including minutes of all Council and Committee meetings, have been made available to you.

**Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
- I also confirm that I have disclosed:
  - my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
  - my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

**Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

**Fair Values**

I confirm the reasonableness of the significant assumptions within the financial statements, including the appropriateness of the measurement method and the basis used by management to overcome the presumption under the financial reporting framework.

**Assets**

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;

- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### Post balance sheet events

Since the date of approval of the financial statements by the Audit and Corporate Governance Committee, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

### Specific representations:

Signed on behalf of Chiltern District Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 23 September 2010.

Signed

Name

Position

Date

## Appendix 3 – Value for money criteria

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## Appendix 3 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	n/a
Workforce	Yes

# Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Address the improvements to internal controls identified					

### The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

### Copies of this report

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